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TAGS: ECON ETRD EAGR MO
SUBJECT: MOROCCAN ECONOMY HOLDING UP WELL TO CREDIT AND
INFLATION CONCERNS, BUT TRADE DEFICIT SPARKS WORRIES

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¶1. (SBU) Summary: Recent data from the Ministry of Finance, Bank Al-Maghrib, and High Planning Commission highlight the Moroccan economy's resilience in the face of the international credit crisis and the surge in international commodity prices. The country is on track to meet its growth and deficit targets, and unemployment has fallen to 9.1 percent, its lowest level in years. Alarms are being raised, however, about the country's deteriorating international position: continued weak performance by Moroccan exports raise the prospect that the balance of payments will soon slip into the red. The growing problem led the Moroccan government this week to convene an interministerial commission to aid the Ministry of External Commerce in devising a strategy to encourage Moroccan exports. End Summary.

MOSTLY GOOD NEWS, EXCEPT ON TRADE

¶2. (U) A flurry of economic reports over the last month highlighted again the fact that except for a slight uptick in inflation and a widening of the country's trade deficit, Morocco continues to hold up well in the face of the twin shocks of the credit crisis and commodity price pressures. Positive results were registered in growth (7 percent in the first quarter, leading the Ministry of Finance to retain its 6.8 percent target for the year), unemployment (9.1 percent, down from 9.6 percent a quarter earlier), investment (1.69 billion USD in the first five months of the year) and the budget (where a 31.5 percent surge in tax revenue has balanced a 178 percent increase in subsidy spending). Only on inflation and trade were the results mixed: prices at the end of July were up 5.1 percent over their level a year earlier, with food products increasing 9.1 percent over the period. The High Planning Commission and Bank al-Maghrib continue to predict that inflation will moderate by the end of the year, though they anticipate it will exceed last year's 2 percent and likely the 3.3 percent registered in
¶2006.

¶3. (U) On the trade front, however, little relief appears to be on the horizon. Updated trade figures through the end of July show that imports increased by nearly 28 percent over last year, easily eclipsing the 18 percent growth registered by Moroccan exports. The country's overall trade deficit thus rose 72.8 percent from 3.56 billion USD to 6.17 billion USD. The export figures actually overstate the health of most Moroccan exports, since virtually the entire increase came from exports of phosphates, which more than doubled. Non-phosphate exports were essentially flat.

A CALL TO ACTION

¶4. (SBU) The increasing trade deficit has prompted increased concern in both the Moroccan government and international economic institutions. Visiting IMF Director General Dominique Strauss-Kahn encouraged the government to address both the country's trade balance and the system of generalized subsidies when he visited in July. Prime Minister El-Fassi subsequently moved to set up a special interministerial commission to consider the issue. That body met on September 9, and Trade Minister Abdellatif Maazouz subsequently urged patience. He noted that a new action plan to address the growing deficit has been elaborated, but judged that it will not bear fruit before 2010. Much of the problem, he argued, is conjunctural, and stems from the increased cost of the energy and agricultural inputs on which Morocco depends. Maazouz outlined a strategy that includes a strategic action plan to encourage exports, focused on tying export promotion to the government's other strategies, such as the "Emergence" plan for industry. Other measures that have yet spelled out in detail include enhanced regulation of imports, increased economic oversight, and modernization of Morocco's operational framework and regulatory provisions for international commerce.

¶5. (SBU) Notwithstanding increased alarm in Morocco's economic press about the trade imbalance, not all of our contacts are concerned. Ahmed Laaboudi, head economist at the Centre Marocain de Conjuncture, a leading think tank, played down the issue when we saw him last month. While

admitting that the balance is not ideal, he argued that "Morocco can handle it even at its current level," thanks to continued strong tourism receipts and unexpectedly high remittances from Moroccans residing abroad. Such transfers, he noted, have "boomed beyond what we expected."

¶6. (SBU) Where our contacts are critical is of the failure of successive governments to adopt an integrated export promotion strategy to accompany its pursuit of free trade with partners including the United States, the European Union, Turkey, Egypt, and Jordan, among others. Former Minister of Finance Mohammed Berrada told us earlier this summer that the combination of free trade, lack of an export strategy, and simultaneous encouragement of domestic consumption as an engine of economic growth has created the present imbalance, with negative consequences for Moroccan producers. The flood of cheap imports, particularly from China, he argued, has distorted the market. He pointed to the row of warehouses adjacent to his family textile company and to the Casablanca port, noting that all have now been rented by merchants who import cheap Chinese goods. "We are unable to compete," he said. While details have yet to emerge, Maazouz's announcement appears to be an initial attempt to address such criticisms.

¶7. (SBU) Comment: Morocco's balance of payments narrowed last year, as for the first time in five years transfers from Moroccans abroad were not sufficient to make up the deficit in good and services. The country continues to enjoy a healthy inflow of direct and portfolio investment, however, so it will not soon face a financing crisis or pressure on the dirham. Clearly though, achieving Morocco's goal of annual growth near 7 percent over the next five years will require the external sector to be a contributor, rather than a drag on GDP. Finding a way to widen what Maazouz himself admits is a "limited export offer" will thus be critical going forward. End Comment.